

**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
Whether there has been a violation
of the Securities Act of Washington by:

METALABS, INC.; CHEMSHOT, INC.; and
GARY EDGAR HUGGINS
Respondents

S-02-335-03-FO01

**ENTRY OF FINDINGS OF FACT AND
CONCLUSIONS OF LAW AND FINAL
ORDER TO CEASE AND DESIST AND
REVOKING EXEMPTIONS AND IMPOSING
FINE**

Case No. S-02-335

THE STATE OF WASHINGTON TO: Metalabs, Inc.
 Chemshot, Inc.
 Gary Edgar Huggins

PROCEDURAL BACKGROUND

On February 18, 2003, the Securities Administrator of the State of Washington issued Summary Order to Cease and Desist and Order Revoking Exemptions and Notice of Intent to Impose a Fine (“Summary Order”), S-02-335-03-TO01, to Metalabs, Inc.; Chemshot, Inc.; and Gary Edgar Huggins.

The Summary Order, together with a Notice of Opportunity to Defend and Opportunity for Hearing (“Notice of Opportunity for Hearing”) and an Application for Adjudicative Hearing were personally served on Gary Edgar Huggins (“Huggins”) on February 21, 2003. The Notice of Opportunity for Hearing advised Metalabs, Inc.; Chemshot, Inc.; and Gary Edgar Huggins that they each had twenty days from the date they received the notice to file a written application for an adjudicative hearing on the Summary Order.

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DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

On March 13, 2003, the Securities Division received the Application for Adjudicative Hearing from Huggins. The application was dated March 7, 2003 and was signed by Huggins. The application stated that Huggins did not wish to request a hearing in this matter. Metalabs, Inc. and Chemshot, Inc. did not make a hearing request within twenty days after service of the Notice of Opportunity for Hearing.

The Securities Administrator will therefore adopt as final the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

I. RESPONDENTS

1. Metalabs, Inc. ("Metalabs") was a Washington corporation that was incorporated in September 1997 and administratively dissolved in December 2000. Metalabs was purportedly in the business of developing and marketing a chemically enhanced shot peening process for treating metal parts.

2. Chemshot, Inc. ("Chemshot") is a Washington corporation that was incorporated in May 2002. Chemshot is purportedly in the business of developing and marketing a chemically enhanced shot peening process for treating metal parts.

3. Gary Edgar Huggins ("Huggins") resides in Spokane, Washington and was a Washington resident at all times material to this order. Huggins was the president of Metalabs and is the president of Chemshot. Huggins is ostensibly the inventor of a chemically enhanced shot peening process that is used to treat metal parts in order to improve their performance and extend their wear life.

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II. METALABS, INC. STOCK OFFERING

From April 1998 through December 2000, Huggins and Metalabs offered and sold more than \$1 million worth of Metalabs stock to approximately 35 investors, most of whom were California residents. The proceeds from the investors were deposited in Washington bank accounts controlled by Huggins and were expended by Huggins. Metalabs never generated any sales revenues from its shot peening process.

III. METALABS, INC. MISREPRESENTATIONS AND OMISSIONS

When offering and selling Metalabs stock, Huggins and Metalabs distributed or aided in the distribution of a business plan containing misleading information. The business plan showed projected net profits of more than \$32 million for fiscal year 2000 and more than \$106 million by fiscal year 2002. The business plan did not explain the assumptions for its forecasts and did not set forth a reasonable basis for the projected profits.

When offering and selling Metalabs stock, Huggins and Metalabs failed to disclose material information to the investors. They failed to give investors financial statements for the company. They failed to disclose the intended use of investor funds. They failed to disclose how much money would be required to complete product testing, product development and product marketing. They failed to disclose how much money would be required to continue operating the company. They failed to disclose that the company had no sales contracts or sales revenues.

Huggins and Metalabs failed to disclose general and specific risks of the investment, including inadequate capitalization, inadequate protection of intellectual property rights, incomplete product

1 testing, dependence on a few key personnel, environmental risks associated with the product, a
2 description of the company's key competitors and limitations on the transferability of the stock.

3 IV. ENERPHAZE CORPORATION STOCK AND STOCK WARRANT OFFERING

4 From November 2001 through January 2002, Huggins was president of Enerphaze Corporation
5 ("Enerphaze"), an Oregon corporation with its principal place of business in Spokane, Washington.
6 Enerphaze was purportedly in the business of marketing a chemically enhanced shot peening process
7 for treating metal parts. From November 2001 through January 2002, Enerphaze offered and sold
8 more than \$1 million worth of Enerphaze stock and stock warrants to more than 100 investors, many
9 of whom were Washington residents. In April 2002, the Washington Securities Division entered a
10 summary order to cease and desist against Enerphaze.

11 V. ENERPHAZE CORPORATION MISREPRESENTATIONS AND OMISSIONS

12 When offering and selling Enerphaze stock and stock warrants, Huggins distributed or aided in
13 the distribution of a business plan containing misleading information. The business plan projects
14 sales of "more than \$52 million in 2003 and more than \$146 million in 2004." The business plan also
15 states that net profits "are expected to reach more than \$10 million for fiscal year 2003." The
16 business plan did not explain the assumptions for its forecasts and did not set forth a reasonable basis
17 for the projected sales and profits.

18 When offering and selling Enerphaze stock and stock warrants, Huggins failed to disclose
19 material information about the investments. Huggins failed to give investors financial statements for
20 the company. He failed to disclose the intended use of investor funds. He failed to disclose how
21 much money would be required to complete product testing, product development and product
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1 marketing. He failed to disclose how much money would be required to continue operating the
2 company. He failed to disclose that the company had no sales contracts or sales revenues. He failed
3 to disclose any commissions paid for the sale of Enerphaze stock. He failed to disclose the
4 compensation paid to Enerphaze officers and directors. He failed to disclose the prior stock offering
5 by Metalabs.

6 Huggins also failed to disclose general and specific risks associated with the investments,
7 including inadequate capitalization, inadequate protection of intellectual property rights, incomplete
8 product testing, dependence on a few key personnel, environmental risks associated with the product,
9 a description of the company's key competitors, limitations on the transferability of the stock, any
10 litigation or potential litigation involving the company and whether any of the corporate officers were
11 subject to prior legal or administrative actions.

12 VI. CHEMSHOT, INC. STOCK OFFERING

13 Chemshot, Inc. ("Chemshot") is a Washington corporation that was incorporated in May 2002.
14 Huggins is president of Chemshot. Chemshot is purportedly in the business of marketing a
15 chemically enhanced shot peening process for treating metal parts. During 2002, Huggins offered
16 Chemshot stock to at least one prospective investor.

17 When offering Chemshot stock, Huggins and Chemshot failed to disclose material information
18 about the investment. They failed to give the prospective investor any financial statements for the
19 company. They failed to disclose the intended use of investor funds. They failed to disclose how
20 much money would be required to complete product testing, product development and product
21 marketing. They failed to disclose the history of the product development. They failed to disclose
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1 how much money would be required to continue operations. They failed to disclose the prior stock
2 offerings by Metalabs and Enerphaze.

3 They also failed to disclose general and specific risks associated with the investment, including
4 inadequate capitalization, inadequate protection of intellectual property rights, incomplete product
5 testing, dependence on a few key personnel, environmental risks associated with the product, a
6 description of the company's key competitors, limitations on the transferability of the stock, any
7 litigation or potential litigation involving the company and whether any of the corporate officers were
8 subject to prior legal or administrative actions.

9 VII. UNREGISTERED SECURITIES

10 Metalabs, Inc., Enerphaze Corporation and Chemshot, Inc. are not currently registered to sell
11 their securities in the state of Washington and have not previously been so registered.

12 VIII. UNREGISTERED BROKER-DEALER OR SALESPERSON

13 Gary Edgar Huggins is not currently registered as a securities broker-dealer or securities
14 salesperson in the state of Washington and has not previously been so registered.

15 IX. THREAT TO THE INVESTING PUBLIC

16 The Securities Administrator finds that the continued offering of stock and stock warrants in the
17 manner described above in the Findings of Fact and the continued availability of nonpublic offering
18 exemptions to the respondent presents a threat to the investing public.

19 Based upon the above Findings of Fact, the following Conclusions of Law are made:
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CONCLUSIONS OF LAW

I.

The offer and sale of the investments described above constitutes the offer and sale of a security as defined in RCW 21.20.005(10) and (12), to wit: stock and stock warrants.

II.

The offer or sale of Enerphaze stock and stock warrants is in violation of RCW 21.20.140 because no registration for such offer or sale is on file with the Administrator of Securities, state of Washington.

III.

Gary Edgar Huggins has violated RCW 21.20.040 by offering and selling Enerphaze stock and stock warrants while he was not registered as a securities broker-dealer or securities salesperson in the state of Washington.

IV.

The offer and sale of Metalabs stock, Enerphaze stock and stock warrants and Chemshot stock was made in violation of RCW 21.20.010 because, in connection with the offer and sale of said securities, Gary Edgar Huggins made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made not misleading.

FINAL ORDER TO CEASE AND DESIST

Based on the foregoing, NOW, THEREFORE, IT IS HEREBY ORDERED that Gary Edgar Huggins and his agents and employees shall each cease and desist from offering or selling securities in

any manner in violation of RCW 21.20.140, the securities registration section of the Securities Act of Washington.

It is further ORDERED that Gary Edgar Huggins and his agents and employees shall each cease and desist from offering or selling securities in any manner in violation of RCW 21.20.040, the securities salesperson registration section of the Securities Act of Washington.

It is further ORDERED that Metalabs, Inc., Chemshot, Inc., Gary Edgar Huggins and their agents and employees shall each cease and desist from violation of RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

FINAL ORDER REVOKING EXEMPTIONS

It is further ORDERED that based upon their violations of RCW 21.20.010, all exemptions available to Metalabs, Inc., Chemshot, Inc. and Gary Edgar Huggins under RCW 21.20.320(1) are hereby withdrawn.

FINAL ORDER IMPOSING FINE

Based upon the misrepresentations or omissions made in connection with the offer and sale of stock and stock warrants as described in the Findings of Fact and Conclusions of Law, the Securities Administrator finds that there have been knowing or reckless violations of the Securities Act of Washington by Gary Edgar Huggins that justify the imposition of a fine pursuant to RCW 21.20.395.

1 Therefore, subject to the requirements of Chapter 34.05 RCW, the Administrative Procedure Act, the
2 Securities Administrator hereby imposes a fine of \$10,000 against Gary Edgar Huggins.

3 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

4 DATED this 9 day of April, 2003

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8 DEBORAH R. BORTNER
9 Securities Administrator

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11 Approved by:

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14 Michael E. Stevenson
15 Chief of Enforcement

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17 Presented by:

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20 Janet So
21 Financial Legal Examiner

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